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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

November 12, 2002

Ms. Marlene Dortch
Secretary
Federal Communications Commission
445 12th Street, SW, Room TWB-204
Washington, DC 20554

Re: Notice of Oral Ex Parte Communication, In the Matter of Review of the Section 25 1 Unbundling Obligations of Incumbent Local Exchange Carriers, CC Docket Nos. 01-338, 96-98 and 98-147

Dear Ms. Dortch:

On Friday, November 8,2002, Bob Quinn, Mike Pfau, Rich Rubin and the undersigned, all representing AT&T, met with William Maher, Scott Bergmann, Michelle Carey, Rich Lemer, Tom Navin, Robert Tanner, Jeremy Miller and Julie Veach of the Commission's Wireline Competition Bureau. The purpose of the meeting was to discuss the engineering and economic disadvantages that CLECs face in trying to compete in the analog mass-market world using a UNE-L strategy. All comments made at the meeting were consistent with the attached presentation materials.

Consistent with Commission rules, I am filing one electronic copy of this notice and request that you place it in the record of the above-referenced proceedings.

Sincerely,

Joan Marsh

cc: William Maher
Michelle Carey
Thomas Navin
Jeremy Miller
Scott Bergmann
Rich Lerner
Robert Tanner

PROMOTING MASS-MARKET COMPETITION:

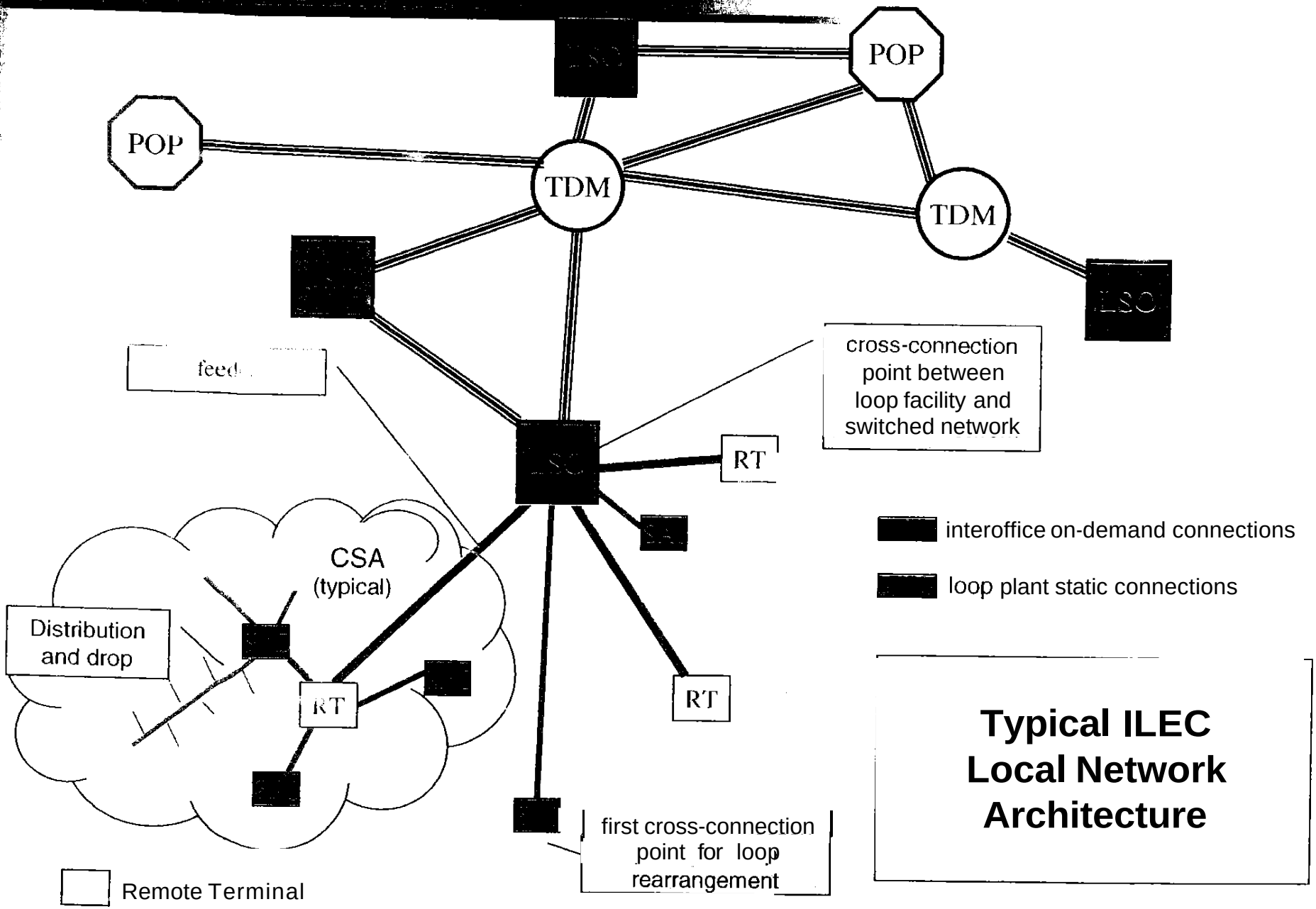
FACING THE ANALOG WALL

AT&T

November 8, 2002

How Do Regulators Create an Environment That Will Encourage Rational Facilities Builds?

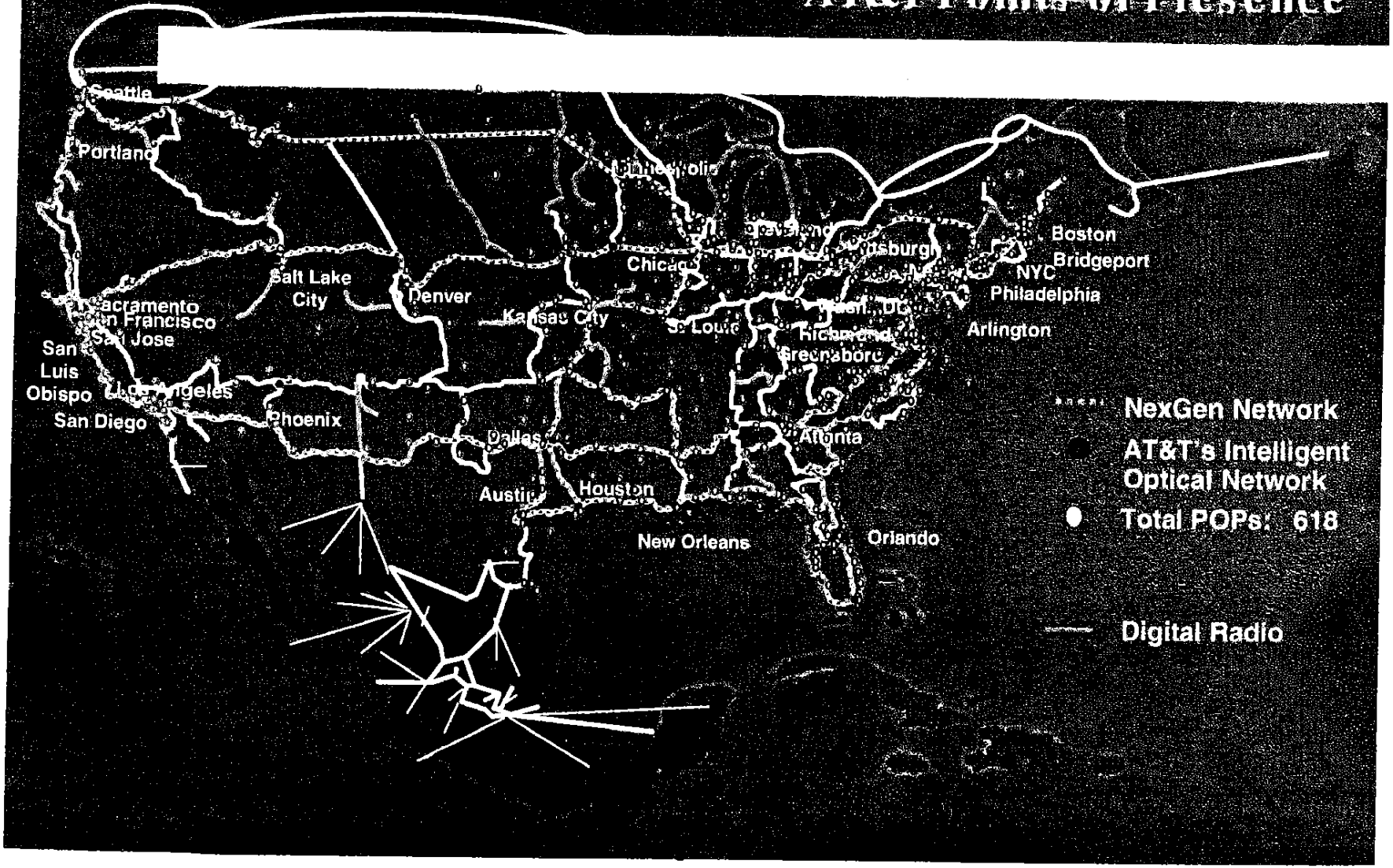
- *UNDERSTAND ILEC/CLEC NETWORK ARCHITECTURE DIFFERENCES*
- *IDENTIFY AND MINIMIZE CLEC COST DISADVANTAGES*
- *CREATE AN EVEN PLAYING FIELD FOR ~~ALL~~ ALL DISTANCE PLAYERS*

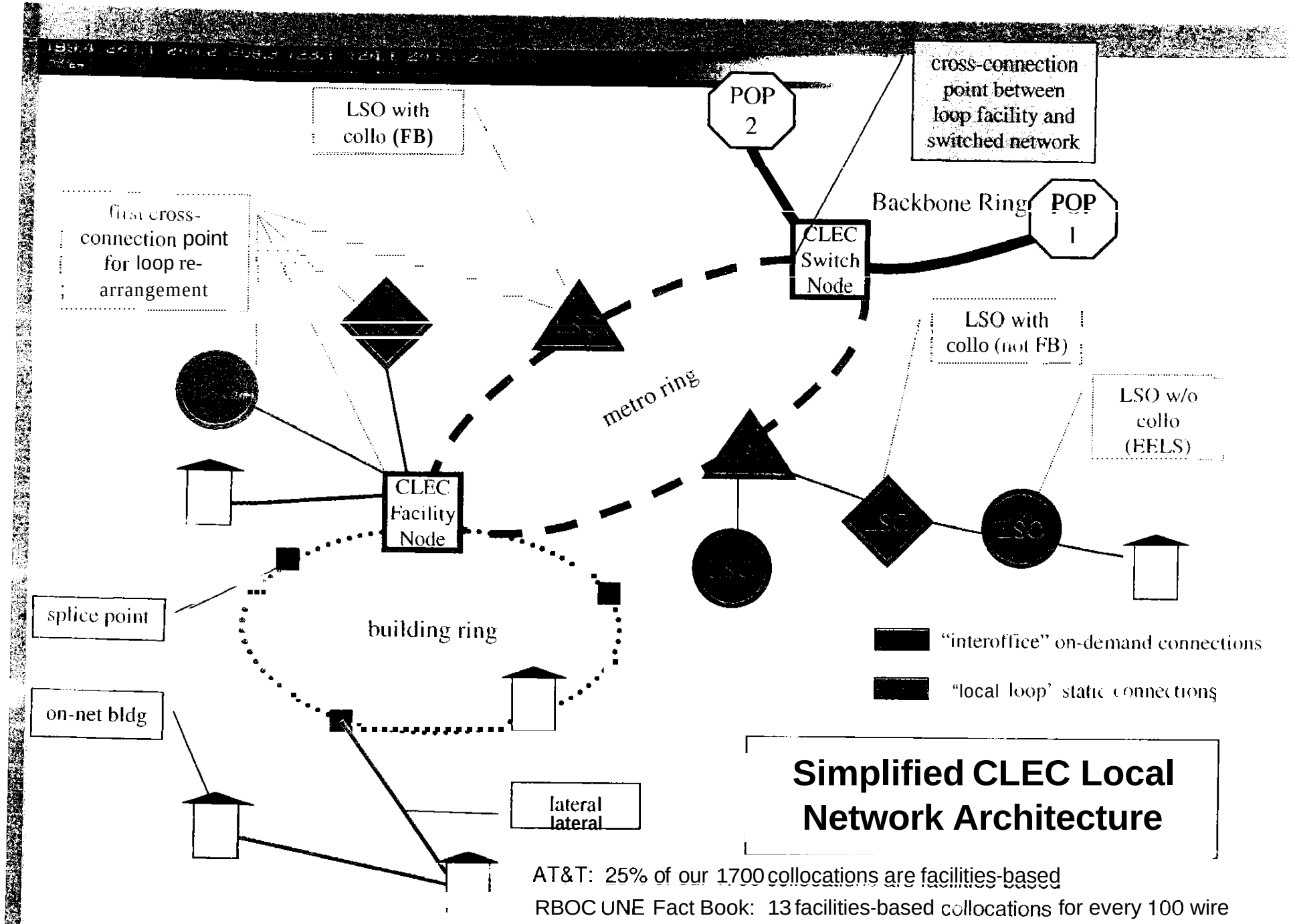


Typical ILEC Local Network Architecture

AT&T Network Services

AT&T Points-of-Presence





Simplified CLEC Local Network Architecture

AT&T: 25% of our 1700 collocations are facilities-based

RBOC UNE Fact Book: 13 facilities-based collocations for every 100 wire centers

The Key for all Providers: Connecting the loop to a switched network

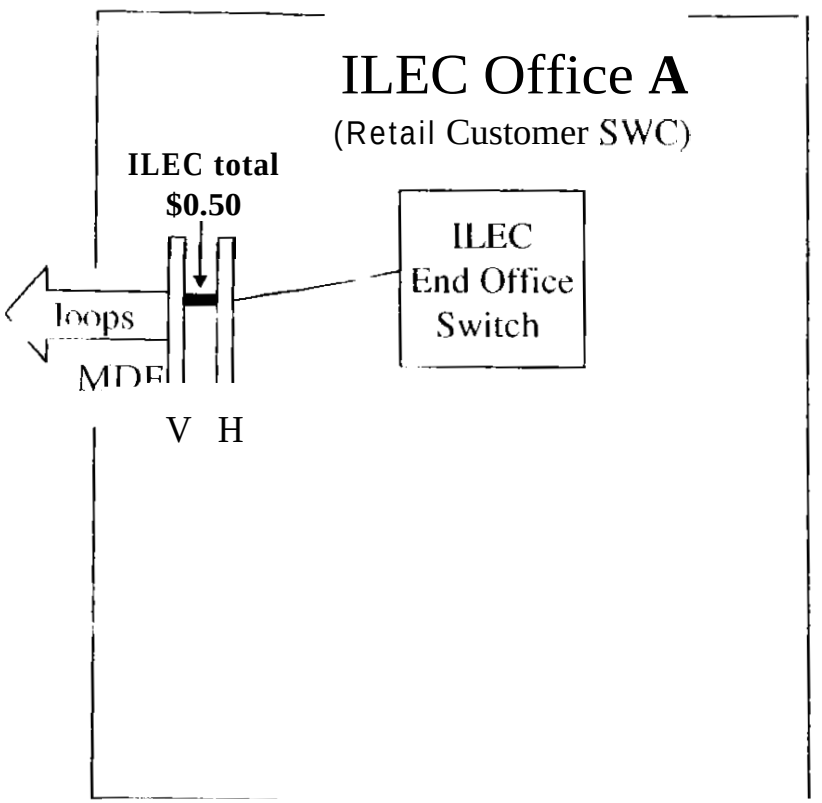
Key ILEC Costs

- Cross-connection from loop to ILEC switch port with a few feet of jumper cable

Key CLEC Costs

- Collocation Costs
  - Space; Power; Cross-Connect Devices
- Loop Provisioning Costs
  - Hot Cut charge and internal CLEC costs to support manual processes
- Transmission Equipment
  - DLC; Multiplexer (DS1 to DS3)
- Transport Costs
  - Interoffice Transport or Special Access
- Facilities-Based Connectivity Costs
  - Add/Drop multiplexer (DS3-OC48)
    Fiber distribution panel
  - Connectivity to metro ring

ILEC vs. CLEC loop interconnection

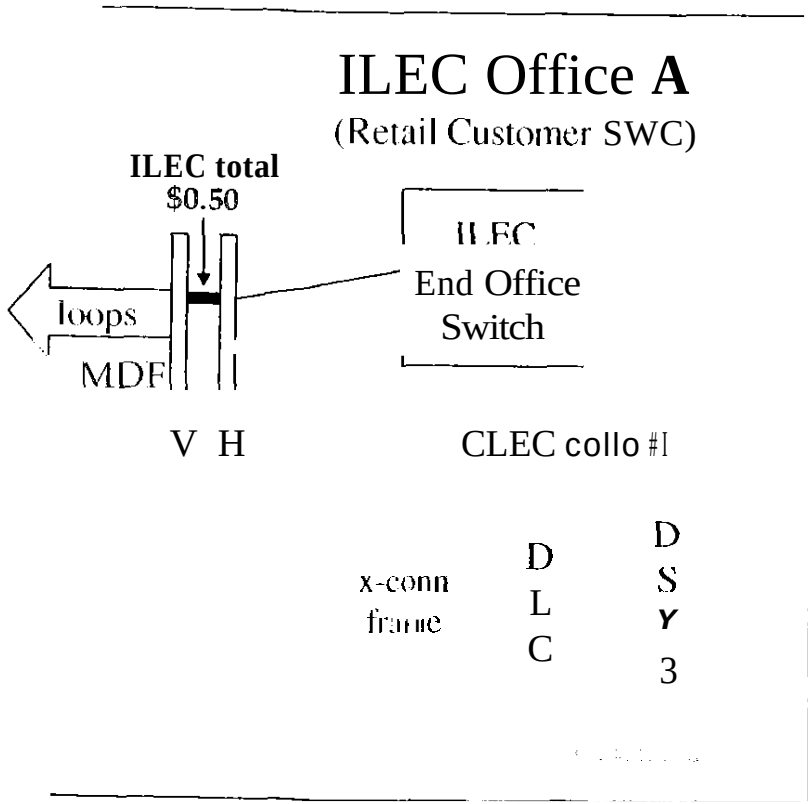


When an ILEC activates service for a retail customer, the customer's loop must be connected to the switch port. Either a short pair of wires is run between the loop and the switch port appearances on the Main Distribution Frame or, if the connection was left in place, a software transaction activates service

The connection between the loop and the switch functionality for the ILEC is a short copper pair that represents a cost well under 50 cents per month

ILEC Backhaul Network

ILEC vs. CLEC loop interconnection



When a CLEC attempts to provide voice grade service over a UNE-L, it must invest in an extensive backhaul infrastructure to provide the equivalent of the tie-pair

First, the CLEC must digitize and multiplex every UNE-L to permit transmission of the customer's communications to a distant switching location

This activity, assuming 100% utilization, generates added costs of about $2.33* per loop for the DLC functionality plus about about $1.41* per loop for collocation space the DLC consumes

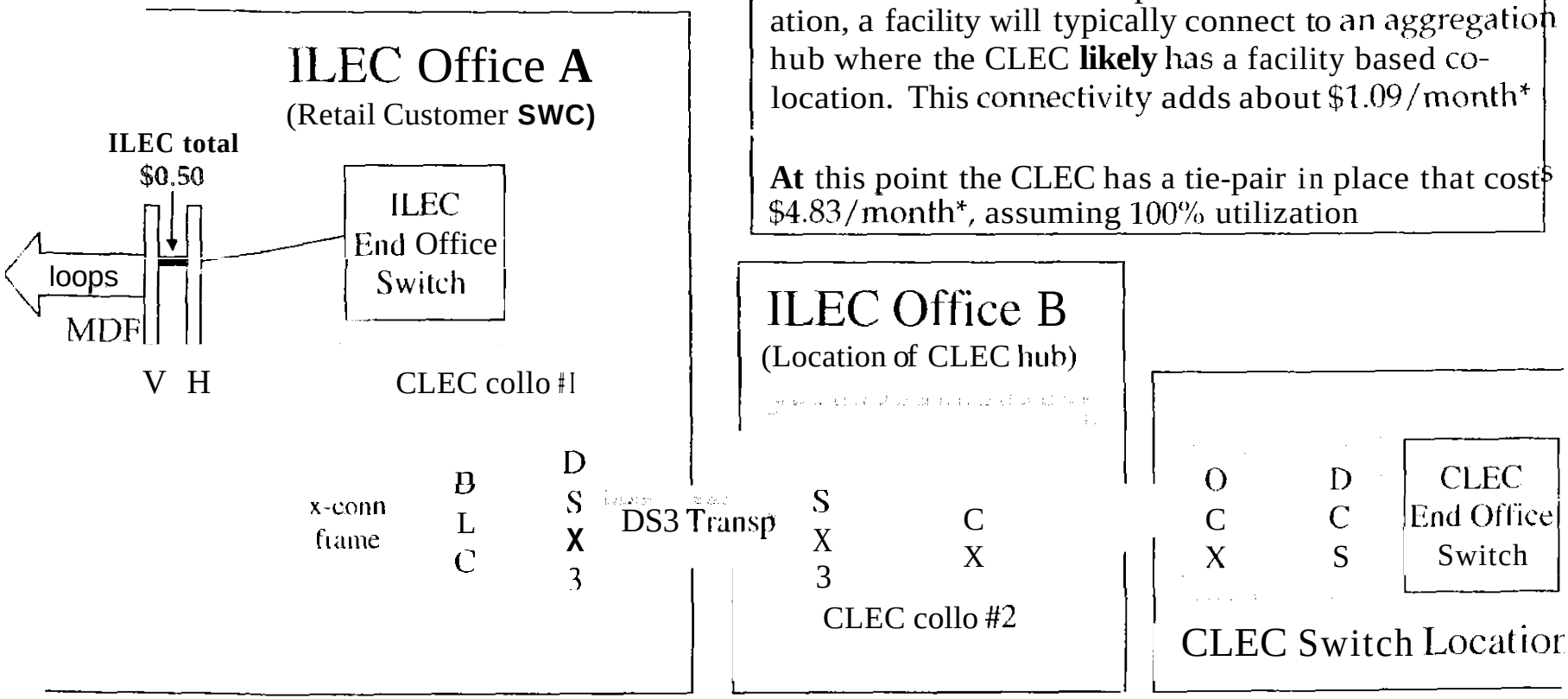
At this point the loop has yet to be extended to a different location

ILEC Backhaul Network

CLEC Backhaul Network

All costs represent conservative estimates of industry costs and are not reflective of AT&T's actual costs

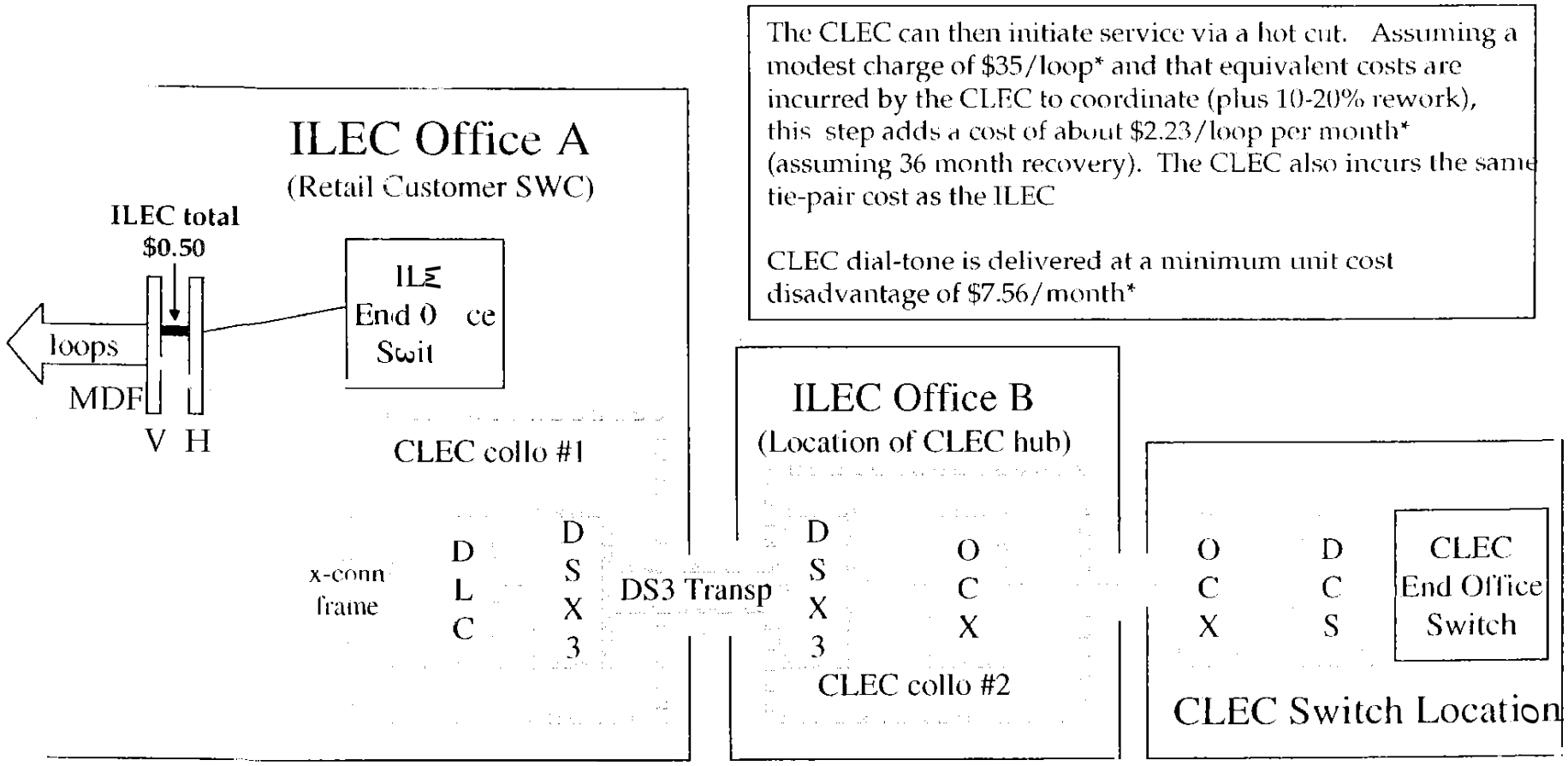
ILEC vs. CLEC loop interconnection



In order to extend the loop to the CLEC switch location, a facility will typically connect to an aggregation hub where the CLEC **likely** has a facility based co-location. This connectivity adds about $1.09/month*

At this point the CLEC has a tie-pair in place that costs $4.83/month*, assuming 100% utilization

ILEC vs. CLEC loop interconnection



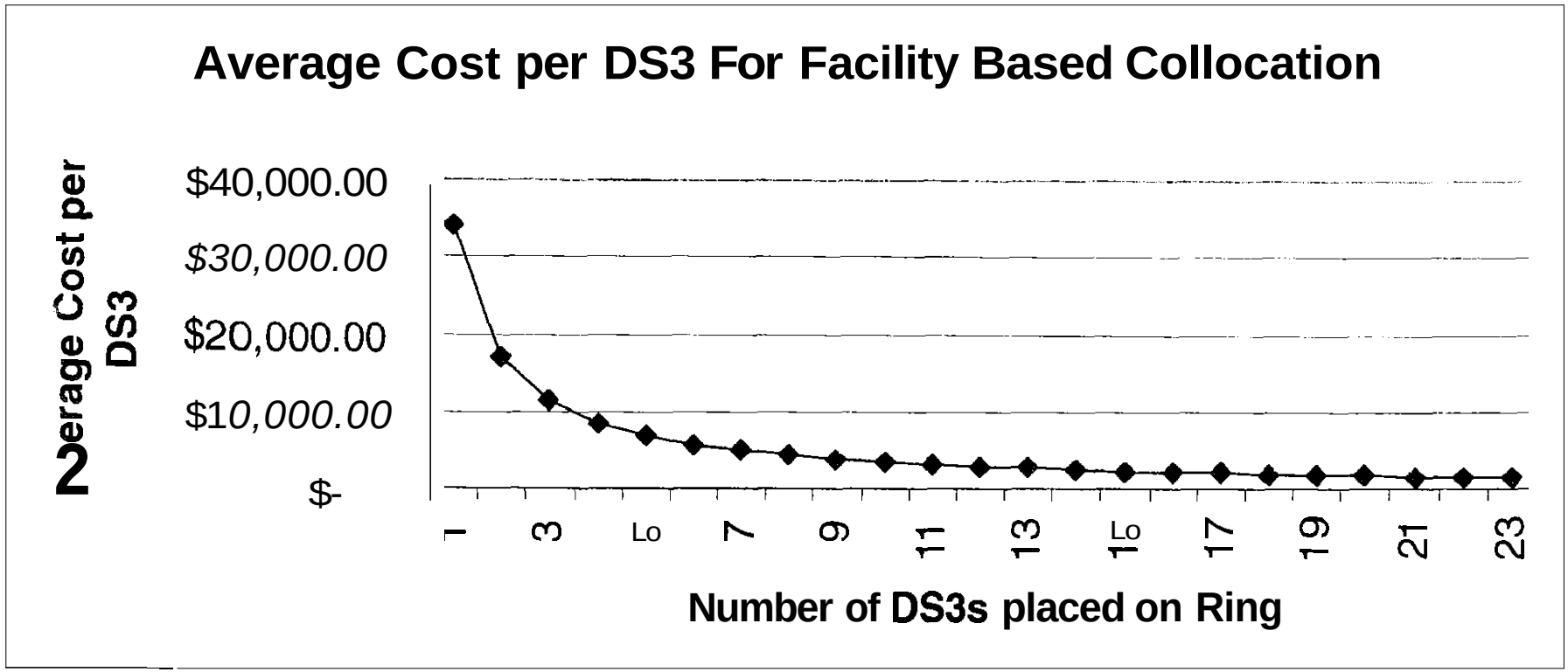
ILEC vs. CLEC loop interconnection

- Recap of Unit Cost Disadvantage for CLECs at 100% Utilization"

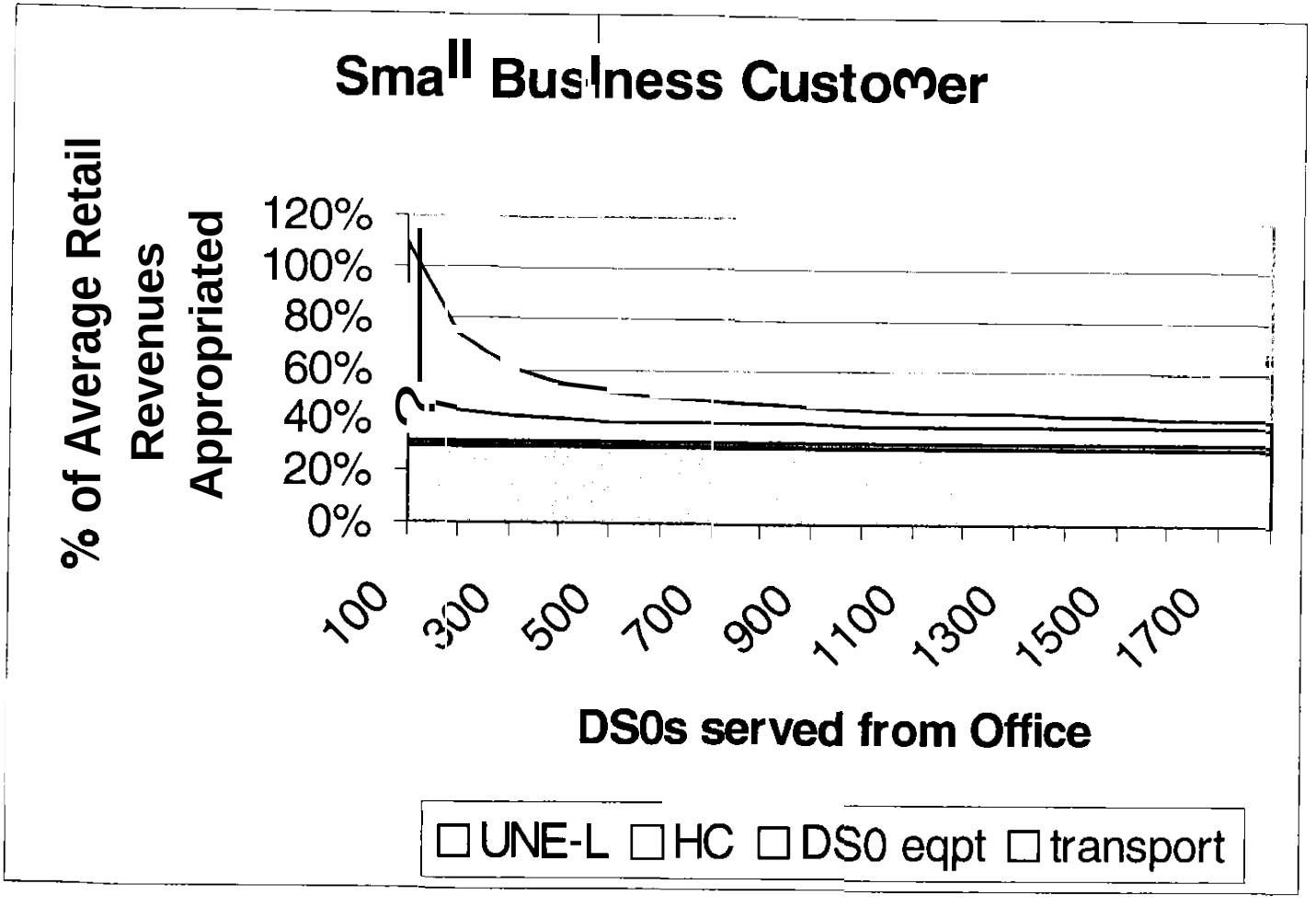
  - ✓$0.50/month Main Frame cross-connection
  - ✓$2.33/month Loop Digitization (DLC)
  - ✓ $1.41/month Collocation Space
  - ✓ $1.09/month LSO-Switch Connection
  - ✓ $2.23/month Customer Transfer Cost

$7.56/month "tie-pair" for CLEC versus*
$0.50/month tie-pair for ILEC

Capacity Cost at a "Typical" Facility-Based Collocation

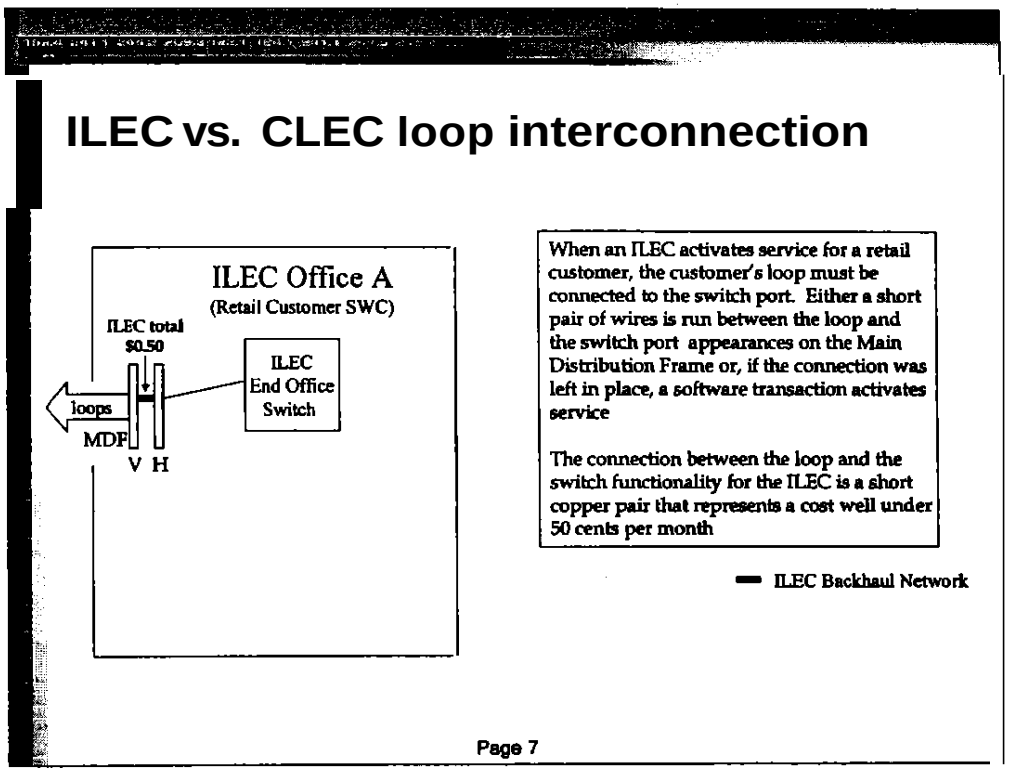


Small Business Backhaul "Disadvantage" Is Sizeable



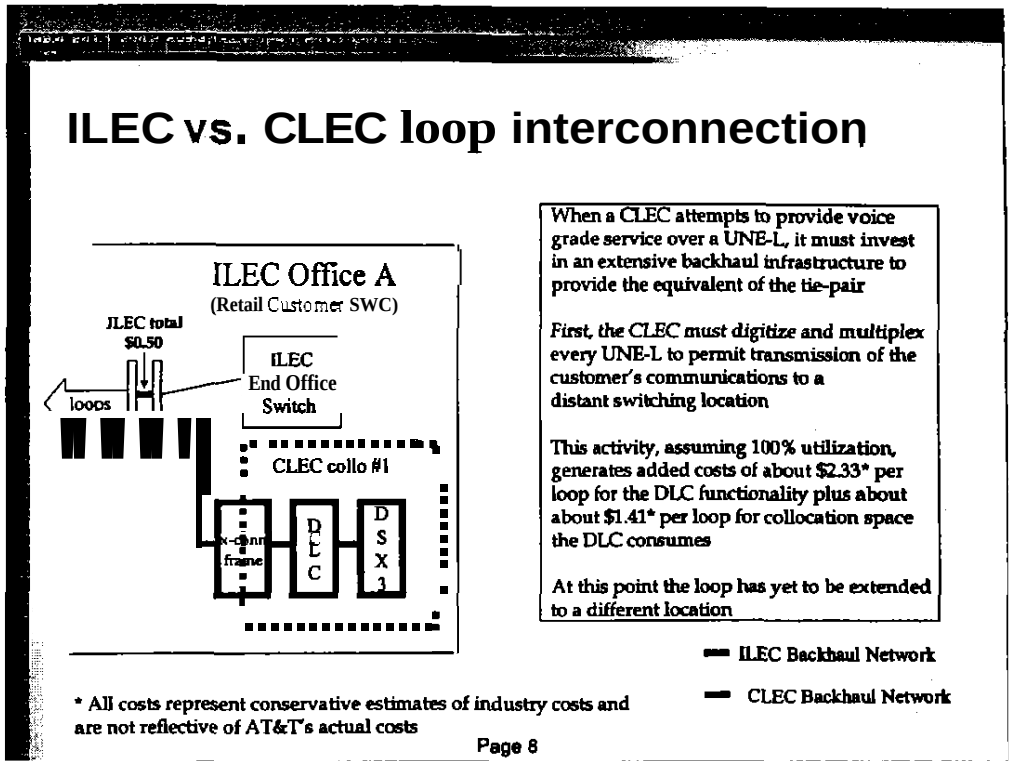
Moving Beyond Local Impairments

- Electronic Access to the Loop
  - Local and LD PIC processes at parity
  - Support competing platforms for provision of broadband services
  - Breaches the analog wall
- Support efficient aqgregation of traffic on local CLEC networks
  - Hubbing is needed to help fill capacity for facility-based collocations
  - Loop, collocation and transport UNEs must be at TELRIC
  - No use/commingling restrictions
- UNE-P is essential to allow CLECs to build a customer base that will support facilities build-out where economically rational
- State PUC Review is Essential



COST ESTIMATE INFORMATION:

ALL COSTS REPRESENTED IN THIS PRESENTATION ***ARE*** CONSERVATIVE ESTIMATES OF AVERAGE INDUSTRY COSTS **AND** ***ARE*** NOT REFLECTIVE OF AT&T'S ACTUAL COSTS



Calculation: DLC investment = $277,220 • .2713 annual *cost* factor / 12

=$6267.48

demand capacity =672*4 = 2,688

monthly cost = 6267.48/2688 = $2.33

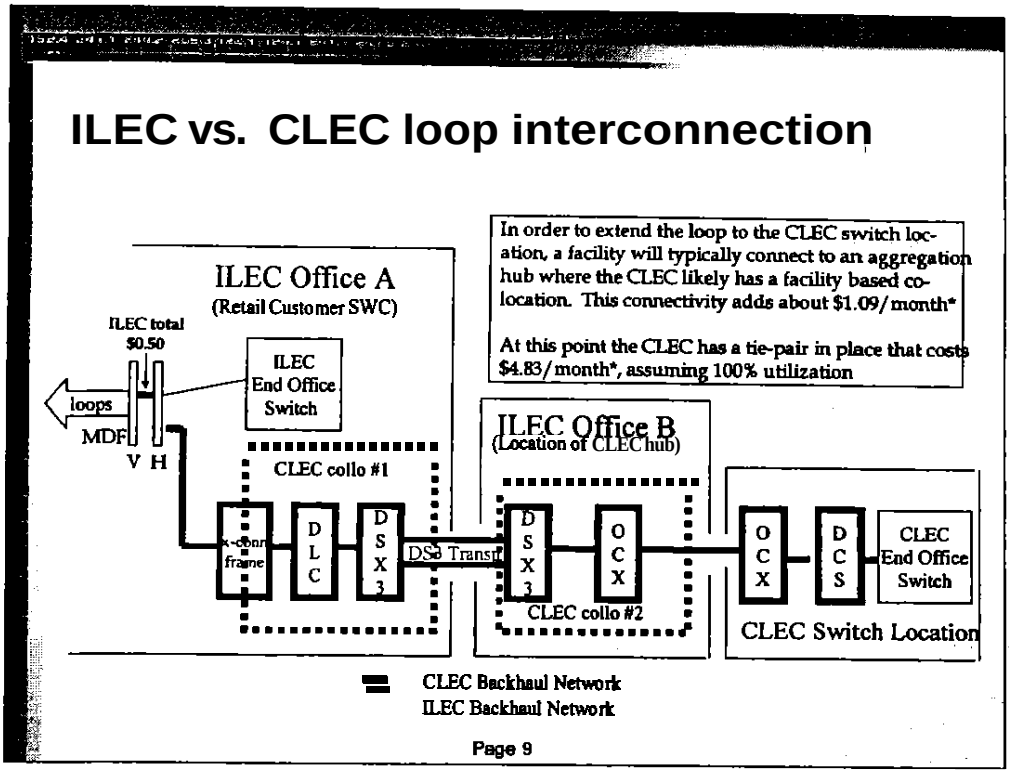
Collocation build (investment) = $175,000 *.2713 ACF/12 = $3956.46

Collocation rental (monthly) = $3600

Total effective cost/month = $7556.46

DLC capacity of 100 sq ft = 8 modules = 5376 lines

Collo cost per line = $7,556.46/5376 lines = $1.41/month



DS3 special access w/o CT at 5 year contract = ~$1000

Capacity = 2688 VG loops per DS3

Transport to hub = $1000/2688 loops = $.37/month/loop

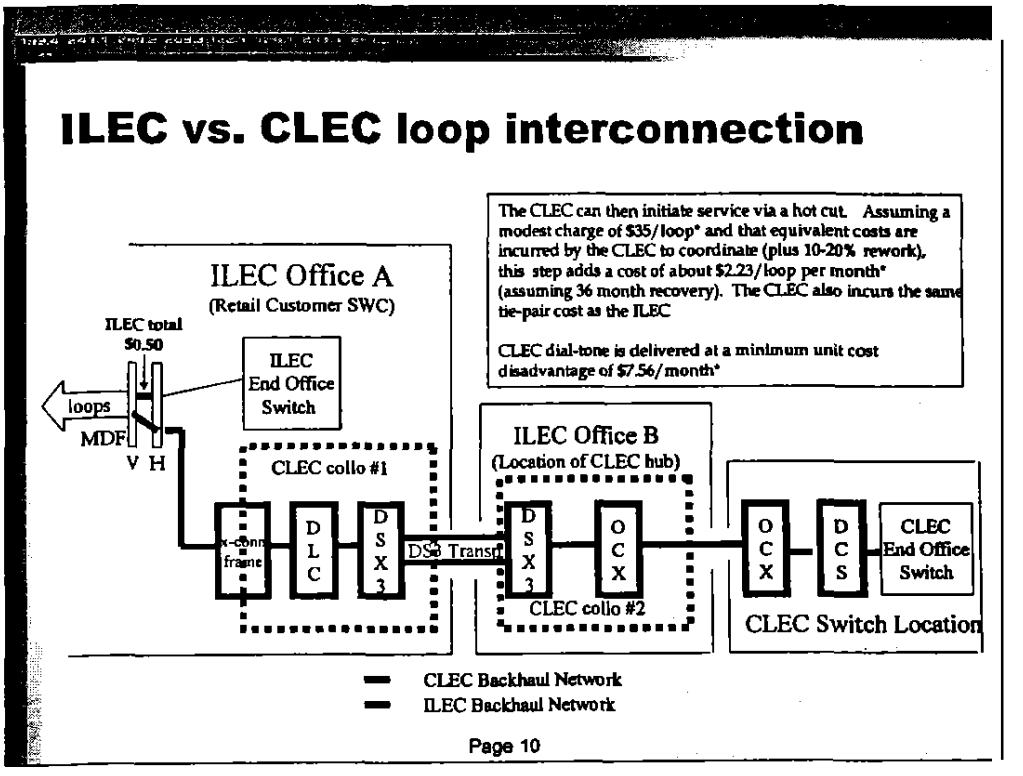
Facility-based collo = $35,000/month

Utilization = 18 DS3

FB Node cost/DS3 = $35,000/18 DS3 = $1944/DS3 • 1DS3/2688 loops

= $0.72/loop /month

Backhaul = $0.37+ $0.72 = $1.09



Median Hot Cut charge = $35.00

Internal Cost =$35.00

15%rework ($70*.15) =$10.50

average transfer cost/successful transfer = $80.5

average account life = 36 months

cost/month **(without any financing cost)** = $2.23/month

ILEC vs. CLEC loop interconnection

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